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To: House Ways and Means Committee
Hearing: President's and Other Bipartisan Entitlement Reform Proposals
Hearing Date: April 18, 2013
Re: Chained CPI

My comment is in the form of a scenario, which I have not found an answer to on the web. I offer a possible interpretation. Is it correct?

So I go to the store and buy a basket of goods. At the grocery checkout the total comes to $100. My (simplified) CPI-U is 100 and my (simplified) C-CPI-U is 100.

A few years later, I go again and load up my cart with the same basket of goods. At the checkout the total comes to $105, so my CPI-U is 105. But before buying, I substitute oranges for apples and rice for potatoes. I have the same nourishment from the groceries, but the substitutions have lowered the total price to $104.50, so my C-CPI-U is 104.5. So far so good.

Then later, for a third time, I return to the grocery store with information on the prices I paid previously. I notice something unusual – the price of each item is exactly 10% more than on my first visit. Apples are 10% more, oranges are 10% more, potatoes are 10% more and rice is 10% more. CPI-U is easy to figure out – 110, since my original market basket now costs $110 at checkout. Since I have no need to make substitutions, the C-CPI-U should also be 110.

Am I right? Would my (simplified) C-CPI-U be 110, matching CPI-U?

Robert L. Munson